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Metro Council

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Office of Internal Audit

Louisville Metro
Parks Department

Farnsley-Moremen
Revenue Administration



Audit Report

Louisville Metro Parks Department

Farnsley-Moremen Revenue Administration

January 2006



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OFFICE OF INTERNAL AUDIT

MICHAEL S. NORMAN, CIA
CHIEF AUDIT EXECUTIVE

Transmittal Letter

January 25, 2006

The Honorable Jerry E. Abramson
Mayor of Louisville Metro
Louisville Metro Hall
Louisville, KY 40202

Re: Review of Metro Parks Farnsley-Moremen Revenue Administration

Introduction

We have examined the operating records and procedures for the operation of the Farnsley-Moremen revenue activity administered by the Louisville Metro Parks Department. The primary focus of the audit was the operational and fiscal administration of the activity. This included how Metro Parks processes, records, and monitors the activity.

Our examination was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

As a part of the review, the internal control structure was evaluated. The objective of internal control is to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- Achievement of business objectives and goals
- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Safeguarding of assets

There are inherent limitations in any system of internal control. Errors may result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personnel factors. Some controls may be circumvented by collusion. Similarly, management may circumvent control procedures by administrative oversight.

Scope

The Louisville Metro Parks Farnsley-Moremen policies and procedures were reviewed. Interviews of key personnel were conducted. The focus of the review was the management of revenue producing activities at the site. This included admission fees, sales of merchandise in the museum store, annual membership passes, facility rentals and catering commissions.

A sample of transactions was reviewed. The sample was chosen from the period July 1, 2004 through June 30, 2005. The examination included the review of activity associated with the sales of goods and services, along with payments received for the period.

The review included assessing whether activity was processed accurately and appropriately. The details of the scope and methodology of the review will be addressed in the Observations and Recommendations section of this report. Our examination would not reveal all non-compliance issues because it was based on selective review of data.

Opinion

It is our opinion that the administration of the Farnsley-Moremen revenue activity is weak. The internal control rating is on page 5 of this report. This rating quantifies our opinion regarding the internal controls, and identifies areas requiring corrective action.

Opportunities to strengthen the administration of the Farnsley-Moremen revenue activity were noted in several areas. Examples of these include the following.

Riverside, The Farnsley-Moremen Landing, Incorporated. Louisville Metro Parks staff are responsible for processing routine revenue activity for Riverside, Farnsley-Moremen Landing, Incorporated. This is a non-profit organization with activity that is not recorded on the Metro financial system. There is no documented agreement between Louisville Metro and the non-profit organization. Additionally, the Metro Parks business office does not receive activity reports or monitor these non-Metro transactions. This does not provide adequate documentation for the responsibility, processing requirements and records required to manage these funds. Metro Parks files recorded approximately \$304,200 of revenue receipts deposited in the non-profit organization's bank account for fiscal year 2005.

Revenue Management. Several concerns were noted regarding the general administration of revenue activity. This included, segregation of duties, reporting of activity, monitoring and reconciliation. Additionally, some timeliness problems were noted regarding the deposit of receipts with the bank and the recording of information on the financial statements. These types of problems do not properly safeguard the assets and lessen the reliability that can be placed on activity reports.

Metro Parks should be commended for their efforts to improve internal controls at the Farnsley-Moremen Historic Site. Even though the full implementation of departmental revenue policies and procedures have not been completed at Farnsley-Moremen, oversight functions have been performed to monitor the activity until a final determination of the appropriate procedures is made.

Facility Rental and Catering Administration. Some concerns were noted during the review of rental and catering information that are indicative of procedural weaknesses. This included incomplete or inaccurate documentation for the activity. These types of

problems hinder the ability to effectively monitor activity to ensure the appropriateness of records and revenue receipts.

The implementation of the recommendations in this report will help improve the internal control structure and effectiveness of the Farnsley-Moremen activity.

Corrective Action Plan

Representatives from the Metro Parks Department have reviewed the results and are committed to addressing the issues noted. Metro Parks corrective action plan is included in this report as responses in the Observations and Recommendations section. We will continue to work with Metro Parks to ensure the actions taken are effective to address the issues noted.

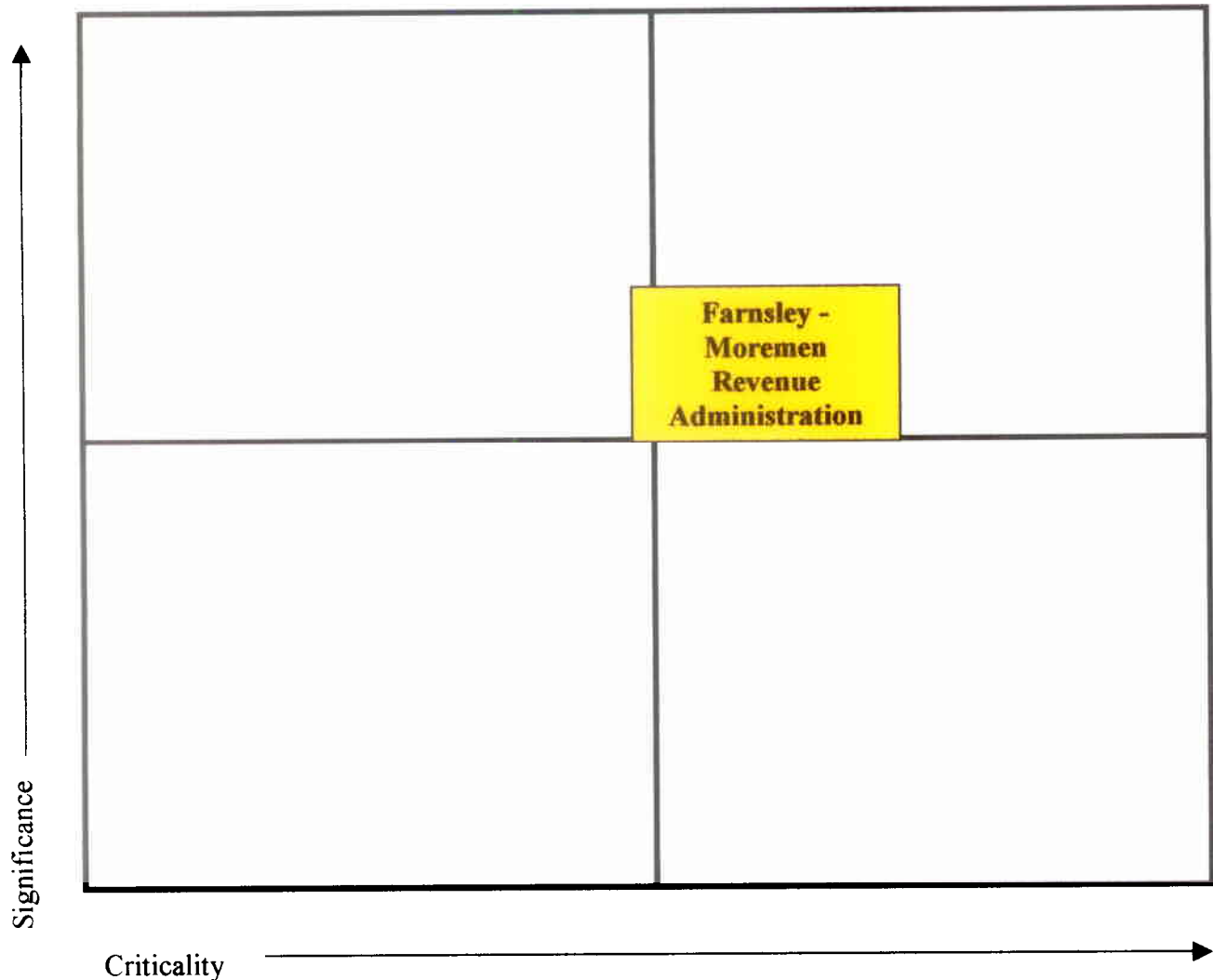
Sincerely,



Michael S. Norman, CIA
Chief Audit Executive

cc: Louisville Metro Council Audit Committee
Louisville Metro Council Members
Deputy Mayors
Secretary of the Cabinet for Neighborhoods, Parks and Cultural Affairs
Director of Metro Parks

Internal Control Rating



<u>Legend</u>			
<u>Criteria</u>	<u>Satisfactory</u>	<u>Weak</u>	<u>Inadequate</u>
<u>Issues</u>	Not likely to impact operations.	Impact on operations likely contained.	Impact on operations likely widespread or compounding.
<u>Controls</u>	Effective.	Opportunity exists to improve effectiveness.	Do not exist or are not reliable.
<u>Policy Compliance</u>	Non-compliance issues are minor.	Non-compliance issues may be systemic.	Non-compliance issues are pervasive, significant, or have severe consequences.
<u>Image</u>	No, or low, level of risk.	Potential for damage.	Severe risk of damage.
<u>Corrective Action</u>	May be necessary.	Prompt.	Immediate.

Background

Farnsley-Moremen exists to promote, preserve, restore and interpret historic farm life on the Ohio River. Visitors to Farnsley-Moremen can tour the historic house and grounds which include: the reconstructed 19th century detached kitchen, on-going archaeological excavations (seasonal), and the kitchen garden where volunteers grow many of the same vegetables and herbs that would have been part of meals served during the period. There is also a modern visitors center which houses an auditorium, museum exhibits and a museum store. The visitors center, pavilion and grounds are available for rental to parties and event coordinators can use suppliers authorized by Metro Parks for catering needs.

The routine operations of the Farnsley-Moremen site are managed by the Metro Parks Department. In addition, Riverside, The Farnsley-Moremen Landing, Inc., is a registered non-profit organization managed by a board independent of Louisville Metro staff. The non-profit organization exists to benefit Farnsley-Moremen through contributions and fundraising for the preservation of the historical site. Metro Parks staff at Farnsley-Moremen initially process some activity (e.g., donations, memberships, educational programs and special events) that is ultimately directed by the non-profit organization.

The fiscal year 2005 Louisville Metro operating budget for Farnsley-Moremen was \$270,900. This included the Metro Government appropriation and anticipated revenues generated from the facility's activities. The Louisville Metro financial system recorded approximately \$27,600 in actual revenue received from recreation receipts, admission receipts, educational programs, gift shop sales, facility rentals and catering commissions.

In addition to activity recorded on the Louisville Metro financial system, internal records maintained by Farnsley-Moremen staff for the non-profit organization recorded approximately \$304,200 of revenue receipts deposited in a separate bank account for fiscal year 2005. These funds are not included on the Metro financial system and are ultimately administered by an independent organization.

This was a scheduled audit.

Summary of Audit Results

I. Current Audit Results

See Observations and Recommendations section of this report.

II. Prior Audit Issues

The Office of Internal Audit has not performed any previous reviews of Farnsley-Moremen.

III. Statement of Auditing Standards

Our audit was performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

IV. Statement of Internal Control

We conducted a formal study of the internal control structure in order to obtain a sufficient understanding to support our final opinion.

V. Statement of Irregularities, Illegal Acts, and Other Noncompliance

Our examination did not disclose any instances of irregularities, any indications of illegal acts, and nothing came to our attention during the examination that would indicate evidence of such. Any significant instances of noncompliance with laws and regulations are reported in the Observations and Recommendations section of this report.

VI. Views of Responsible Officials / Action Plan

An exit conference was held on January 5, 2006. Attending were Mike Heitz, Mary Ann Westenhofer and Patti Linn representing the Metro Parks Department; Mike Norman, Scott Miller and Mark Doran representing the Office of Internal Audit. Final audit results were discussed.

The views of Metro Parks Department officials are included as corrective action plans in the Observations and Recommendations section of the report. The plans indicate a commitment to addressing the issues noted.

Observations and Recommendations

Scope

Key personnel were interviewed to gain an understanding of the policies and procedures for the Metro Parks Farnsley-Moremen facility admission, museum store, facility rental, catering activity, consignment payments and membership revenue. The focus of the review was the administration of activity and revenue management. This includes the processing, recording, and monitoring of activity.

A sample consisting of Louisville Metro Parks Farnsley-Moremen facility revenues was judgmentally selected from the population of transactions for the period July 1, 2004 through June 30, 2005. The review focused on information recorded in the Metro Parks Farnsley-Moremen activity reports, consignment contracts, membership applications, membership database, facility rental contracts, catering agreements, bank deposits, and the Louisville Metro financial system.

The information was reviewed to ensure that activity was processed accurately and appropriately. In addition, an assessment of the internal controls and procedures for the administration and planning of activities was performed. Our examination would not reveal all non-compliance issues because it was based on selective review of data.

Observations

There were some problems noted with the procedures associated with the administration of revenue for Farnsley-Moremen. As a result, the internal control structure is weakened and its effectiveness impaired. Examples of the observations include the following:

#1 - Riverside, The Farnsley-Moremen Landing, Incorporated

#2 - Revenue Management

- A. General Administration
- B. Segregation of Duties
- C. Monitoring and Reconciliation
- D. Reporting

#3 - Revenue Processing Timeliness

#4 - Facility Rental

#5 - Catering Services

Details of these begin on the following page.

#1 - Riverside, The Farnsley - Moremen Landing, Incorporated

Riverside, The Farnsley-Moremen Landing, Incorporated is a registered non-profit organization managed by a board independent of Louisville Metro staff. The non-profit organization exists to benefit Farnsley-Moremen through contributions and fundraising for the preservation of the historical site. Metro Parks staff at Farnsley-Moremen initially process some activity (e.g., donations, memberships, educational programs and special events) that is ultimately directed by the non-profit organization. The following concerns were noted regarding the administration of this activity.

- Louisville Metro Parks staff are responsible for processing routine revenue activity for the organization that is not recorded on the Metro financial system. Internal records maintained by Parks staff recorded approximately \$304,200 of revenue receipts deposited in the non-profit organization's bank account for fiscal year 2005.
 - There is no documented agreement between Louisville Metro and the non-profit organization. This does not provide adequate documentation for the responsibility, processing requirements and records required to manage these funds. This weakens the accountability for the activity and may result in liability risk for Metro employees.
 - The Metro Parks Business Office does not receive activity reports or monitor the transactions for the non-profit organization.

Recommendations

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ A formal written agreement between the Louisville Metro Government and Riverside, The Farnsley-Moremen Landing, Inc. should be implemented. The agreement should outline the roles and responsibilities for each of the organizations. It should include the authorized functions performed by all individuals (Metro employees, volunteers, board members).
- ✓ A documented policies and procedures manual should be implemented based on the requirements recorded in an agreement between Louisville Metro and the non-profit organization. This manual should include sufficient detail for each job duty performed, copies of forms used, and the policies followed in the processing of activity. This internal policy and procedures manual should be distributed to all applicable personnel. In addition, key personnel should be trained to help ensure consistent adherence to the requirements. The internal policy and procedures should reflect the most current information and be updated periodically.
- ✓ Metro Parks policies and procedures should consider all activity managed at the Farnsley-Moremen facility, both Metro and board related. This includes deposit threshold policies, physical security of assets and employee duties.
- ✓ A monitoring system should be established to provide proper oversight of activities managed by Louisville Metro staff. This should include the review of forms used to process activity, along with bank transactions. This would provide for the proper level of accountability and allow for the safeguarding of assets temporarily in the custody of Louisville Metro staff.

- ✓ Legal counsel and the Metro Finance department should be consulted to ensure all applicable guidelines and requirements are considered.

#2 - Revenue Management

All Farnsley-Moremen revenue activity is entered into a cash register system in the museum store and several reports are used to record activity. This includes daily cash register readings, daily register count reports and a weekly sales report. Routine weekly deposits are submitted to the appropriate bank account (Metro Parks or non-profit organization).

Metro Parks revenues are posted to the Louisville Metro financial system in the accounts descriptive of their source (e.g., admissions, rental, catering). Metro bank deposits and financial postings are monitored and reconciled by the Metro Parks business office. As previously noted, transactions for the non-profit organization are not monitored by Metro Parks. The following issues were noted regarding the management of revenue activity.

A. General Administration

- Historically, Farnsley-Moremen had operated as a division of the Metro Facilities Management Department. The administration of the site was transferred to the Metro Parks Department as of July 2004. While some administrative changes have been made, full implementation of departmental revenue policies and procedures have not been required at Farnsley-Moremen. Metro Parks management decided to assess operations for a period of time to determine the appropriate fiscal policies and procedures that should be implemented. Management's assessment, along with the results of this internal audit review, will be considered to ensure activity is administered appropriately.

Metro Parks should be commended for their efforts to improve internal controls at the Farnsley-Moremen Historic Site. Oversight functions have been performed to monitor the activity until a final determination of the appropriate procedures is made.

- The Gift Shop maintains a variety of items for sale, such as candy, snacks, key chains, and paintings. Some items are sold in accordance with a documented consignment agreement that details the cost and revenue sharing arrangement. A couple of concerns were noted related to the processing of these transactions.
 - State sales tax for candy is not processed in the same manner as other museum store items. A flat rate is charged that includes sales tax for candy items. For all other items for which sales tax applies, the tax is computed separately from the sales price. Sales tax for candy is not reported on the cash register with taxes paid for other types of items. Ultimately, this processing practice requires that additional computations be performed to determine the total sales tax due. This increases the risk of an error occurring and likely hinders the efficiency of processing the activity.
 - There are no documented inventory policies and procedures. Aside from consignment sales, there is not any type of documented inventory or reconciliation performed for the gift shop inventory.
 - The current reporting procedures do not adequately comply with the consignment contracts. The standard contracts state that "the consignee shall keep a record detailing the quantity of each type of consignor product sold, total dollar amount sold each month, and the split of revenues between the consignee and consignor". While periodic inventories are relied upon to monitor consignment sales, monthly records are not maintained. The cash register does report the dollar amount of consignment sales, but a detailed description of the item(s) sold is not provided.

- Annual membership passes are sold that offer admission privileges and discounts on museum store items. The cards are maintained in an unlocked desk drawer and are not pre-numbered. This does not provide for adequate accountability or safeguarding of the membership cards.
- Checks are not endorsed when received. They are held and Parks staff use the applicable endorsement stamps when the deposit is prepared. The delay in endorsing checks does not provide for the proper level of safeguarding the assets from being incorrectly endorsed or missing an endorsement.
- Total revenues are not routinely monitored for deposit thresholds. Metro revenues are recorded separately from the non-profit organization's receipts. This could allow funds held on site to exceed intended deposit thresholds.

Recommendations

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ Metro Parks should be commended for their efforts to strengthen internal controls at Farnsley-Moremén. Efforts should continue to improve the administration of revenue activity. Updated policies and procedures, along with continued monitoring will help achieve these improvements.
- ✓ All Louisville Metro policies and procedures should be complied with and considered with respect to departmental guidelines.
- ✓ A written internal policies and procedures manual should be implemented. This manual should include sufficient detail for each job duty performed, copies of forms used, and the policies followed in the processing of activity. This manual should address all programs and forms of revenue, as well as, the other functions that are performed at Farnsley-Moremén. This internal policy and procedures manual should be distributed to all applicable personnel. In addition, key personnel should be trained to help ensure consistent adherence to the requirements.
- ✓ The internal policies and procedures should reflect the most current information and be updated periodically. This will help ensure adherence to applicable guidelines, along with promoting efficiency and effectiveness of revenue administration.
- ✓ The formal policies and procedures manual should be disseminated to all applicable staff. The policies and procedures manual should be used as a training manual for new staff and individuals serving in backup roles.
- ✓ Deposit requirements should be documented in the departmental manual. These policies and procedures should consider the specific business practices and risks associated with various types of payment methods (e.g., cash, checks). All activity administered by Metro staff, including the non-profit organization's transactions, should be considered as policies and procedures are implemented.
- ✓ Parks management should consider the benefits, risks and processing requirements associated with different tax treatment for certain types of sales. Consistency in

processing would likely increase the efficiency in reporting sales and the associated taxes. Additionally, it would decrease the risk that incorrect amounts are reported.

- ✓ Parks staff should administer consignment sales in accordance with the applicable contract requirements. This includes timely and accurate reporting, along with maintaining appropriate inventory and sales reports.
- ✓ Parks management should assess the benefit of periodic inventories of gift shop stock. Even if a detailed inventory count is not performed, analytical reviews (per capita sales, item turnover) could be performed to assess the activity.
- ✓ Membership cards should be maintained in a secure location (e.g., safe, cash drawer). In addition to using the cash register, an oversight system should be implemented to help ensure all cards/sales are accounted for. One way to do this is to have pre-numbered cards to monitor sequential transactions.
- ✓ Checks should be endorsed as received. This would require separating payments to Louisville Metro from the non-profit organization's receipts.
- ✓ Key personnel handling money should take mandatory vacations of at least one consecutive week. In addition to allowing staff members routine breaks from the work environment, this helps ensure the integrity of activity and is a recommended "best practice" for cashier functions.

B. Segregation of Duties

- There were several problems noted regarding the segregation of duties. The following types of weaknesses impair accountability, do not properly safeguard assets and may impede the efficient and effective processing of activity.
 - There is not adequate segregation of cashiering functions, custody of funds and daily reporting duties.
 - All administrative staff at the Farnsley-Moremen site may serve as cashiers and have access to the safe. All revenue receipts for the business week are retained in this safe until a bank deposit is made.
 - A revolving fund is maintained for cashier banks. Individuals serving in a cashier function obtain the cash drawer independently. There is no verification of the bank amount or sales by anyone other than the cashier.
 - While the cash register records transactions processed by each individual cashier, multiple individuals may share a single cash drawer. This practice lessens the ability to hold individual staff members accountable for discrepancies.
 - Cashiers have the capability to run cash register reports for the activity they process. This allows the opportunity to compare actual receipts to register reports and make undetected adjustments before the final reports are prepared. This increases the risk of improper activity being processed.
 - All cashiers have the ability and are authorized to process refunds and voids without supervisory approval. In addition, voids may not be processed until the end of the day instead of the time of the transaction. This increases the risk of not processing or overlooking transactions.
 - A single individual is responsible for processing sales, preparing bank deposits, submitting funds to the bank, preparing sales report, ordering inventory items, receiving goods and the stocking of the inventory in the museum store.

Recommendations

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ There should be limited access to the safe. In addition, only a Manager or Supervisor should be opening the safe. In cases where Manager or Supervisor availability is not feasible (e.g., staff size constraints), appropriate compensating controls should be practiced (e.g., supervisory review, monitoring of safe contents).
- ✓ Metro Parks should continue to explore the use of a drop safe with access limited to key personnel. This would limit the risk of deposits being misplaced, lost, or stolen.
- ✓ Each employee processing revenue transactions, to include relief personnel, should have their own cash drawer to provide accountability.
- ✓ Management should develop a process that clearly assigns the responsibility for when money exchanges hands from one staff member to another. Cash should be counted and there should be documented amounts and signatures that provide agreement from

both parties involved in the exchange of the funds. For example, this should occur at the beginning of the day, at each shift change of personnel and at the end of the day.

- ✓ A cashier should not be able to prepare cash register reports for activity they process. This ability should be limited to a manager. Activity reports should record the cash register information compared to the actual revenue receipts. Any discrepancies should be reflected on the activity report.
- ✓ All activity should be processed at the time of the actual transactions. This includes revenue receipts, along with any voids or refunds.
- ✓ Voids and refunds should be properly documented and reviewed by supervisory staff.
- ✓ Activity reports (e.g., register reading, daily cashier report) should be prepared for each cashier. Funds reported by the cashier should be verified. Ideally, the verification should be performed by supervisory personnel. In cases where a supervisor is not available, another responsible staff member could verify the revenue receipts. The cashier and verifier should sign the applicable report to attest to the amount of the funds.
- ✓ To the extent possible, the same individuals should not have the ability to receive payments, prepare the deposits, and make the deposits. In addition, the same individuals should not be able to independently order, receive, and stock inventory. In cases where complete segregation is not feasible (e.g., staff size constraints), appropriate compensating controls should be practiced (e.g., supervisory review, monitoring).

C. Monitoring and Reconciliation

- There were some weaknesses associated with the monitoring and reconciliation activities at Farnsley-Moremen. While some types of review are performed, they are cursory in nature. There is not any documentation that exists for the performance of this monitoring activity. The following are examples of the problems.
 - While Farnsley-Moremen staff maintain some information (e.g., Record of Expenditures - Advertising) that is used to verify Metro financial system detail records, there is no documented review of the Metro financial system statements. Financial system reports are provided and Farnsley-Moremen staff will perform limited review and notify the business office of any corrections.
 - The site Manager performs a limited oversight of information, but there is no documented review of the internal financial reports by Farnsley-Moremen staff.
- The Metro Parks business office performs routine monitoring of Farnsley-Moremen revenue activity that is recorded on the Metro financial system. As previously noted, the Metro Parks business office does not monitor the non-profit organization's transactions. With the exception of the non-profit activity, the overall monitoring procedures appear adequate. A few discrepancies and opportunities for improvement were noted. The following are examples of the issues.
 - Copies of revenue records (sales reports, deposit slips, deposit receipt, and cash register readings) are routinely submitted to the business office. This information could not be located for three of the eight weeks examined.

Farnsley-Moremen staff were contacted to provide the information that the business office was missing. Deposit receipts for two of the three weeks were missing from the site file also.
 - The business office monitors the cash register readings to help ensure they are in sequence and all activity is accounted for. This review is not documented.
 - One of the monitoring reports (Fee Journal Reconciliation Spreadsheet) used by the business office is maintained in electronic form, but calculations are performed manually. This increases the risk of errors and inaccurate information.

Recommendations

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ A major component of any reporting system is proper reconciliation and monitoring. It is imperative that administrative staff reviews the information on a regular basis. This includes reviewing individual transactions for appropriateness, completeness and adherence to requirements, along with monitoring of financial system reports. Ultimately, transactions should be reconciled to the Metro financial statements to ensure the accurate and timely reflection of activity. In order to promote proper segregation of duties, an administrator independent of the actual processing of activity should perform this function.
- ✓ A documented reconciliation should be performed. Supervisory personnel should periodically review the reconciliations to ensure all activity is properly accounted for.

- ✓ The accuracy and completeness of records should be monitored on a regular basis. This includes ensuring that all transactions are accounted for, all applicable information is provided and that the information is accurate.
- ✓ Routine supervisory review should be performed to ensure that proper reconciliations are performed. Verification of reconciliations will improve the completeness and accuracy of activity reports. Ultimately this will help ensure the reliability of information for management analysis.

D. Reporting

- There may be opportunities to use existing equipment to improve the completeness and accuracy of reporting. For example, the cash register at Farnsley-Moremen has the capabilities to transmit activity reports electronically to the Metro Parks business office. However, this feature is not currently used due to some concerns regarding the security of the connectivity.
- Farnsley-Moremen uses several reports for recording revenue activity. There were problems noted with the accuracy and completeness of the documentation examined. The following types of issues weaken the reliability of the reports and increase the risk of revenue not being properly accounted for.
 - The Farnsley-Moremen staff uses the Register Count Sheet as a log for tracking the morning and evening cash on hand and the applicable sales information. The form can be used to help prepare the deposit total for the daily activity, but is not submitted to the Metro Parks business office with the sales report.
 - There were several cases in which information on the Register Count Sheet was missing or inaccurate (morning total amount, evening total amount, register tape total, deposit total).
 - Normally, the Farnsley-Moremen facilities are closed to the public on Mondays. Two cases were noted in which sales were processed through the cash register on a Monday. No Register Count Sheet was prepared for either of these days.
 - The cashier does not sign the Register Count Sheet to attest to its accuracy.
 - The register spreadsheet records daily activity by category (e.g., admissions, memberships, museum store) and is used to compile weekly revenue receipts. It is not submitted to the Metro Parks business office with the sales report. There were several problems noted with the information recorded on the register spreadsheets examined.
 - Several cases were noted in which the register spreadsheet did not agree with the information recorded on the Register Count Sheet or the cash register reading amounts.
 - The register spreadsheets may be edited for returned checks after the deposit is processed. The uncollected amounts are removed from the report instead of a reconciling notation being made. A couple of cases were noted in which revenues were not reflected for checks rejected by the bank. This results in the register spreadsheet not clearly reconciling with other activity reports that initially reflect the receipts.
 - The sales report is used to show the allocation of revenue for a weekly period as well as listing the deposit total. The report and supporting documents (deposit slip, deposit receipt, cash register readings, voids, refunds, credit card reports) for Metro revenue are submitted to the Parks business office. The sales report for the non-profit organization's activity is retained by Farnsley-Moremen staff, but not submitted to the Metro Parks business office. While there were some minor discrepancies noted, the sales reports examined appeared to accurately reflect revenue activity and bank deposits.
 - Credit card information recorded on the sales report may not accurately reflect the financial coding associated with the revenue activity. All credit card sales are recorded as gift shop sales. Parks staff determine the desired financial

coding by manually comparing total sales amounts for the revenue categories. In addition to not clearly documenting the determination of amounts posted to some financial accounts, this process requires that some independent judgment be used.

- A Journal Voucher is submitted to Metro Finance by the Parks business office in order to allocate revenue receipts to the desired financial accounts on the Metro financial system. One case was noted in which the total amount of the Journal Voucher did not agree with the bank deposit amount.

Internal Audit brought this minor discrepancy to the attention of Metro Parks staff for further review.

Recommendations

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ The Louisville Metro Parks business office should continue to explore the possibility of reporting site activity electronically. This may require additional consultation with the Metro Department of Technology.
- ✓ In cases where computers are used to prepare activity reports, software functions should be used when available. This includes using formulas to calculate report information to help ensure the accuracy of computations.
- ✓ Metro Parks monitoring should include the completeness of activity. For example, a formal oversight should be conducted of the cash register reading numbers to ensure they are sequential and that no transactions are missing.
- ✓ Revenue reports (e.g., sales reports) should present accurate and clear information. This includes reflecting the appropriate allocation of revenue to the Metro financial system accounts. Any adjustments (e.g., returned check) should be noted along with supporting documentation.
- ✓ Part of a formal reconciliation process should be ensuring that transactions are presented accurately on the bank statements and posted to the proper accounts on the financial reports.
- ✓ Documentation should be reviewed and approved by a responsible manager. Appropriate personnel should review all source documentation to ensure the transactions appear appropriate.

#3 - Revenue Processing Timeliness

Payments for rentals and catering receipts are processed with other Farnsley-Moremen revenue. Transactions are entered into a cash register system in the gift shop and several reports are used to record activity. This includes daily cash register readings, daily register count reports and a weekly sales report.

Deposits are usually prepared and submitted to the bank weekly. Routine weekly deposits include one business week's activity, with Sunday being the last day of the week. The goal is to deposit the actual receipts with the bank on the Monday following the last day of the business week, or when receipts reach \$1,000, whichever occurs first. The deposits are posted to the Louisville Metro financial system in the accounts descriptive of their source (admission, gift shop, rental, catering). Ultimately, all bank deposits and financial postings are monitored and reconciled by the Metro Parks business office.

- Based on the review of a sample of transactions, several bank deposits did not appear to have been made within a timely manner (within 1 day of the close of business week). Additionally, some cases were noted in which it appeared as though total funds (combined Metro and Riverside, The Farnsley-Moremen Landing, Inc.) exceeded \$1,000 prior to the end of the period in which funds were deposited. All receipts were held until the weekly deposit was prepared.

The fact that routine deposits would include an entire week's activity increases the importance of placing funds in the bank as soon as possible after the close of the period. Depending on the level of activity, revenue receipts could be relatively substantial. This could increase the risk of loss of the receipts, as well as, impact the opportunity costs associated with potential interest earned by funds not held in a bank account.

- There were some cases noted in which the deposit was not posted to the Louisville Metro financial system within a timely manner (within 10 days of the bank deposit date). Untimely posting of transactions limits the financial system's usefulness as a reporting and monitoring tool.

Recommendations

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ Deposits should be made as soon as possible to ensure assets are safeguarded and to take advantage of accrued interest. General best practices would require that funds be deposited weekly or when total receipts exceed a predetermined amount, whichever occurs first. Metro Parks' management should determine the deposit threshold based on risks associated with various types of payment methods (e.g., cash, checks). Deposit requirements should be documented in the departmental manual.
- ✓ Prior to deposit, payments received should be retained in a secured environment with access limited to authorized individuals (e.g., locked safe).
- ✓ Ideally, segregation of duties should be incorporated into revenue processing. A single individual should not be responsible for the receipt, recording, deposit, and

reconciliation of receipts. If this is not possible due to staff size constraints, additional compensating controls are necessary.

- ✓ Accounting entries to post transactions to the desired financial accounts should be submitted on a regular, timely basis. Routine submission would allow for activity to be reflected in the period in which it occurred. Timely and accurate reporting increases the usefulness of the financial statements as a monitoring and management tool.
- ✓ A formal, documented reconciliation process should be practiced. The detailed activity reports should be compared to some type of source documentation. This helps ensure the transactions were processed as intended and posted to the proper financial accounts in a timely manner. This also helps strengthen the reliability of the financial statements.

#4 - Facility Rental

In addition to using common areas of the park free of charge and tours offered of the historical site for a fee, portions of the Farnsley-Moremen facilities may be reserved and rented. The Visitor Center, Pavilion and Grounds are available for rent and established rates are charged based on the facility used, rental times and season. Damage deposits are also required based on the areas rented.

A Rental Policies & Procedures handout is available with the general guidelines for facility use. A Rental Contract is required along with the applicable payment in order to reserve an area. The damage deposit is required when the contract is signed and a payment schedule with due dates is included as part of the agreement. Other forms are used to document the rental requirements and the condition of the premises. A Points to Remember Prior to Rental of Riverside form is provided prior to the event and a Post-Rental Damage Checklist is completed after the rental. All of the rental duties are managed by Farnsley-Moremen staff.

- While there are documented forms that include guidelines and fee schedules, there are no documented processing procedures for the day-to-day administration of the rental activity. The existing documentation focuses on the renters' information and responsibilities. There is not a comprehensive manual that presents the complete duties that the Metro staff are responsible for to ensure all forms are completed and revenues are processed in accordance with intended requirements.

Considering the assignment of liability and associated revenue collections associated with rental activity, consistent completion of records and adherence to procedures is necessary.

- Several concerns were noted during the review of rental file information that are indicative of procedural weaknesses. The following types of problems hinder the ability to effectively and efficiently monitor activity to ensure the appropriateness of records and revenue receipts.
 - Several cases were noted in which contract information was incomplete. This included missing signature, amount and date information.
 - A couple of cases were noted in which the Points to Remember Prior to Rental of Riverside form was missing or did not contain the appropriate signatures.
 - Several cases were noted in which the Post Rental Damage Checklist was not complete or was not signed by the renting party and site inspector.
- The rental agreements allow for the use of some items (e.g., tables, chairs). As noted previously, inspections may not be adequately documented in order to ensure the items are maintained in the condition they are received. Additionally, Metro Parks does not maintain any type of inventory for items used during rentals or on display. This does not provide proper accountability or safeguarding of the assets.

Recommendations

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ A written internal policies and procedures manual should be developed. This manual should include sufficient detail for each job duty performed, copies of forms used and

the policies followed in the processing of revenue activity. This internal policy and procedures manual should be distributed to all applicable personnel. In addition, training of key personnel will help ensure consistent adherence to the requirements. The internal policy and procedures should reflect the most current information and be updated periodically.

- ✓ Routine supervisory review should be performed to assess the administration of the rental activity, as well as completeness and accuracy of files. Consideration should also be given to adherence with applicable guidelines. The reviews should be documented and signed by the reviewer.
- ✓ Care should be taken to ensure that complete and accurate information is consistently recorded on contracts, inspection forms, renter requirement documents and other records. The importance of complete and accurate documentation should be emphasized to all personnel.
- ✓ Documentation should be reviewed and approved by a responsible manager. Appropriate personnel should review all source documentation to ensure the transactions appear appropriate.
- ✓ Files and records should be maintained in a complete and orderly manner. Supporting documentation (contracts, inspection forms) maintained by Metro Parks should be organized and easily located to allow for monitoring and review. This will allow for proper oversight and compliance with any applicable guidelines.
- ✓ All records should be retained in accordance with Louisville Metro Archives guidelines.
- ✓ Inspections of the before and after conditions of the facilities should be performed and documented as intended. This helps protect both Metro Parks assets, as well as, documents possible claims against the renters.
- ✓ Metro Parks should consider conducting an inventory for items at the Farnsley-Moremen site. The items available for use during rentals should be verified during the routine site inspections. The value and portability of other items should be considered when determining the need for inclusion in formalized inventory.
- ✓ All Metro guidelines, such as capital asset and risk management requirements, should be adhered to for Metro Parks assets.

#5 - Catering Services

Renters have the option of using licensed caterers for their scheduled events at Farnsley-Moremen. While an approved supplier must be used if catering services are desired, the actual arrangements are the responsibility of the event coordinator/renter. Metro Parks receives a 12% commission from gross sales (less sales tax) from the licensed caterers on all food and alcohol sales. The license agreements require that the caterer provide a copy of the invoice detailing the charges for the event organizer, along with the actual payment of Metro Parks portion, within 30 calendar days of the event.

- Some problems were noted regarding the information provided and the payments submitted to Metro Parks for catering services provided to renters.
 - Some cases were noted in which the caterer did not provide the required client invoice information with the commission check for Metro Parks. This does not provide sufficient documentation in order to verify the accuracy of the payment received.

In addition, one payment was not received within the required time period and another payment was delinquent and had not been received as of the audit review date.
 - One case was noted in which it did not appear the caterer's payment to Metro Parks was accurate. Based on the client invoice and the license commission rate, it appeared the commission was less than should have been paid.

Recommendations

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ Metro Parks should require that all suppliers provide services and submit information within the requirements documented in the license agreements. Support documentation should be submitted with the receipts to allow for proper verification of payments received.
- ✓ The invoice information should be reviewed and the commission payment to Metro Parks should be verified for accuracy.
- ✓ The license agreements should be adhered to regarding inadequate/missing documentation and inaccurate payments. Follow-up contact with suppliers should be performed in cases where the transactions do not comply with the applicable requirements.
- ✓ Suppliers that fail to address non-compliance issues should not be authorized to provide services until issues have been corrected.

Metro Parks Department Corrective Action Plan

We are currently in the process of implementing several major changes which we believe will correct the problems addressed in this audit. We will work closely with Internal Audit as we finalize each component of our corrective actions.

We have met with a representative from Riverside, the Farnsley-Moremen Landing, Inc. and have started discussions for implementation of a formal written agreement between Metro Government and the non-profit. This agreement will address the duties of each entity. The agreement is in the initial stages, but once we have a more completed document, we would like to forward to the Internal Audit Department for review and recommendations. As with all our agreements, we will work with both the County Attorney's office and Risk Management in drafting this document.

We are in the process of purchasing ACTIVE Recreation/Reservation Software and hardware necessary for facility rentals, program registration and point of sale. This is a "real time" system with inventory and cash management capabilities. Each component contains contracts, pre-numbered receipts, reporting and accounting components that we believe will build better accountability and documentation into our revenue system. We hope to have this system in place and fully operational by fiscal year end. All revenues collected by Metro Parks will be recorded in this system.

We are currently revising the policy and procedures manuals for both the Farnsley-Moremen Historic Site and our Business Office. Once the revised policies and procedures are in place we will train all staff. We are also writing the policy and procedure manual for our Recreation/Reservation system and expect to have it completed at the same time. Each of these sections will address segregation of duties and asset management.

Minor changes, such as eliminating consignment sales, reorganizing staffing during Farnsley-Moremen's busy season and restructuring the inventory pricing will also be implemented with the above changes. It is our intention to have all changes in place by fiscal year end.